

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hillsdale Board of Public Utilities	County Hillsdale
Fiscal Year End June 30, 2007	Opinion Date October 1, 2007	Date Audit Report Submitted to State December 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.		Telephone Number 517-788-8660	
Street Address 2545 Spring Arbor Road, Suite 200		City Jackson	State MI
		Zip 49203	
Authorizing CPA Signature <i>F. Roger Mack</i>		Printed Name F. Roger Mack	License Number 1101020342

Hillsdale Board of Public Utilities

Financial Report
With Supplemental Information

Year Ended June 30, 2007

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Independent Auditors' Report

Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hillsdale Board of Public Utilities, Enterprise Funds of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillsdale Board of Public Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Hillsdale Board of Public Utilities Enterprise Funds and are not intended to present fairly the financial position of the City of Hillsdale, and the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

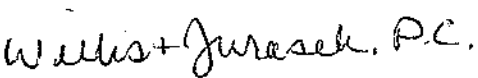
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Hillsdale Board of Public Utilities as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2007 on our consideration of the Board's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Board Members
Hillsdale Board of Public Utilities

The Hillsdale Board of Public Utilities has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements. The Hillsdale Board of Public Utilities has elected not to prepare such analysis, but encourages users of these financial statements to read the MD&A contained in the annual financial report of the City of Hillsdale for the year ended June 30, 2007.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hillsdale Board of Public Utilities basic financial statements. The accompanying supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The current year supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


Willis & Jurasek, P.C.

October 1, 2007

Hillsdale Board of Public Utilities

Statement of Net Assets

June 30, 2007

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 2,213,940	\$ -	\$ 469,676	\$ 2,683,616
Receivables:				
Customer accounts, net of allowance for doubtful accounts of \$120,000	988,678	97,542	47,045	1,133,265
Interest	24,115	3,298	4,905	32,318
Due from other funds of BPU	-	-	679,727	679,727
Due from other funds of City	3,428	-	-	3,428
Inventories	330,418	77,320	9,481	417,219
Prepaid expenses	84,458	21,344	35,515	141,317
Total current assets	<u>3,645,037</u>	<u>199,504</u>	<u>1,246,349</u>	<u>5,090,890</u>
Restricted and designated assets:				
Designated investments	3,256,997	281,255	305,147	3,843,399
Restricted investments	-	629,210	613,806	1,243,016
Total restricted and designated assets	<u>3,256,997</u>	<u>910,465</u>	<u>918,953</u>	<u>5,086,415</u>
Capital assets:				
Property, plant and equipment, at cost	29,762,872	10,011,279	13,269,398	53,043,549
Less: accumulated depreciation	<u>17,492,604</u>	<u>4,369,954</u>	<u>9,057,872</u>	<u>30,920,430</u>
Total capital assets (net)	<u>12,270,268</u>	<u>5,641,325</u>	<u>4,211,526</u>	<u>22,123,119</u>
Other assets:				
Long-term inventories	330,664	-	-	330,664
Investment in M.S.C.P.A.	<u>5,996,638</u>	<u>-</u>	<u>-</u>	<u>5,996,638</u>
Total other assets	<u>6,327,302</u>	<u>-</u>	<u>-</u>	<u>6,327,302</u>
Total assets	<u>25,499,604</u>	<u>6,751,294</u>	<u>6,376,828</u>	<u>38,627,726</u>

See Notes to Financial Statements.

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Liabilities:				
Current liabilities payable from current assets:				
Accounts payable	\$ 37,274	\$ 30,188	\$ 11,002	\$ 78,464
Accrued purchased power	865,050	-	-	865,050
Due to other funds of BPU	-	679,727	-	679,727
Due to other funds of City	40,748	3,557	1,898	46,203
Customer deposits	6,276	85	-	6,361
Accrued liabilities:				
Payroll taxes	3,518	-	-	3,518
Other	32,726	4,830	5,347	42,903
Total current liabilities payable from current assets	<u>985,592</u>	<u>718,387</u>	<u>18,247</u>	<u>1,722,226</u>
Current liabilities payable from restricted assets:				
Bonds payable	-	260,000	150,000	410,000
Accrued interest	-	33,119	4,675	37,794
Total current liabilities payable from restricted assets	-	293,119	154,675	447,794
Compensated absences payable	92,275	36,104	34,364	162,743
Long-term debt, net of current maturities:				
Bonds payable	<u>-</u>	<u>2,825,000</u>	<u>785,000</u>	<u>3,610,000</u>
Total liabilities	<u>1,077,867</u>	<u>3,872,610</u>	<u>992,286</u>	<u>5,942,763</u>
Net Assets:				
Invested in capital assets, net of related debt	12,270,268	2,556,325	3,276,526	18,103,119
Restricted for debt service	-	629,210	613,806	1,243,016
Unrestricted (deficit)	<u>12,151,469</u>	<u>(306,851)</u>	<u>1,494,210</u>	<u>13,338,828</u>
Total net assets	<u>\$ 24,421,737</u>	<u>\$ 2,878,684</u>	<u>\$ 5,384,542</u>	<u>\$ 32,684,963</u>

Hillsdale Board of Public Utilities
Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2007

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business Type Activities</u>
Operating Revenue:				
Sales to customers:				
Residential	\$ 3,983,175	\$ 613,774	\$ 286,455	\$ 4,883,404
Business	1,165,090	154,257	66,349	1,385,696
Commercial	3,409,403	260,396	132,125	3,801,924
Industrial	3,708,061	129,505	82,494	3,920,060
Apartments	-	307,174	143,223	450,397
Street light sales	47,023	-	-	47,023
Other operating income	<u>47,683</u>	<u>9,593</u>	<u>9,039</u>	<u>66,315</u>
 Total operating revenue	 <u>12,360,435</u>	 <u>1,474,699</u>	 <u>719,685</u>	 <u>14,554,819</u>
 Operating Expenses:				
Purchased power	6,304,511	-	-	6,304,511
Production expense	863,998	55,739	-	919,737
Transmission and distribution	1,164,930	-	-	1,164,930
Collection system expense	-	-	177,478	177,478
Treatment expense	-	-	559,492	559,492
Purification expense	-	232,293	-	232,293
Distribution expense	-	415,347	-	415,347
Administrative and general	<u>838,673</u>	<u>227,184</u>	<u>213,130</u>	<u>1,278,987</u>
 Total operating expenses	 <u>9,172,112</u>	 <u>930,563</u>	 <u>950,100</u>	 <u>11,052,775</u>
 Operating Income	 <u>3,188,323</u>	 <u>544,136</u>	 <u>(230,415)</u>	 <u>3,502,044</u>
 Non-operating Revenue (Expense):				
Interest income	258,362	54,487	65,098	377,947
Interest expense	-	(134,834)	(20,175)	(155,009)
Other non-operating income (expense)	<u>51,994</u>	<u>(4,224)</u>	<u>(2,243)</u>	<u>45,527</u>
 Total non-operating revenue (expense)	 <u>310,356</u>	 <u>(84,571)</u>	 <u>42,680</u>	 <u>268,465</u>
 Changes in Net Assets	 3,498,679	 459,565	 (187,735)	 3,770,509
 Net Assets, Beginning of Year	 <u>20,923,058</u>	 <u>2,419,119</u>	 <u>5,572,277</u>	 <u>28,914,454</u>
 Net Assets, End of Year	 <u>\$ 24,421,737</u>	 <u>\$ 2,878,684</u>	 <u>\$ 5,384,542</u>	 <u>\$ 32,684,963</u>

See Notes to Financial Statements.

Hillsdale Board of Public Utilities
Statement of Cash Flows
Year Ended June 30, 2007

	Business-Type Activities - Enterprise Funds			
	Electric	Water	Sewer	Total
Cash Flows from Operating Activities:				
Cash received from customers, residents and users	\$ 14,099,660	\$ 1,436,161	\$ 735,355	\$ 16,271,176
Other operating receipts	47,683	9,593	9,039	66,315
Cash paid to employees and suppliers	(11,807,999)	(1,021,037)	(489,677)	(13,318,713)
Net cash provided by operating activities	2,339,344	424,717	254,717	3,018,778
Cash Flows from Capital and Related Financing Activities:				
Bond payments on capital debt	-	(250,000)	(145,000)	(395,000)
Interest payments on capital debt	-	(134,834)	(20,175)	(155,009)
Proceeds from the disposal of assets	143,013	-	-	143,013
Purchase of capital assets, net	(778,250)	(48,511)	(4,296)	(831,057)
Net cash used by capital and related financing activities	(635,237)	(433,345)	(169,471)	(1,238,053)
Cash Flows from Investing Activities:				
Unrealized gain on investments	(27,604)	(9,450)	(14,240)	(51,294)
Purchase of investments	(1,111,175)	(65,185)	(45,366)	(1,221,726)
Proceeds from the sale of investments	-	33,000	11,000	44,000
Other non-operating income received	18,107	-	-	18,107
Other non-operating expenses	-	(4,224)	(2,243)	(6,467)
Interest income received	258,362	54,487	65,098	377,947
Net cash provided by investing activities	(862,310)	8,628	14,249	(839,433)
Net Increase (Decrease) in Cash and Cash Equivalents	841,797	-	99,495	941,292
Cash and Cash Equivalents, Beginning of Year	1,372,143	-	370,181	1,742,324
Cash and Cash Equivalents, End of Year	\$ 2,213,940	\$ -	\$ 469,676	\$ 2,683,616
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 3,188,323	\$ 544,136	\$ (230,415)	\$ 3,502,044
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	626,703	212,325	158,502	997,530
(Increase) decrease in:				
Receivables	40,927	(28,530)	24,709	37,106
Due from other funds	14,078	-	322,008	336,086
Inventories	(23,320)	2,802	(2,905)	(23,423)
Prepays	(2,802)	(1,167)	(2,624)	(6,593)
Investment in M.S.C.P.A.	(1,532,922)	-	-	(1,532,922)
Increase (decrease) in:				
Accounts payable	(26,690)	20,363	(7,517)	(13,844)
Accrued expenses	60,907	(3,816)	(5,993)	51,098
Due to other funds	(5,067)	(320,981)	(1,048)	(327,096)
Customer deposits	(793)	(415)	-	(1,208)
Net Cash Provided by Operating Activities	\$ 2,339,344	\$ 424,717	\$ 254,717	\$ 3,018,778

See Notes to Financial Statements.

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Hillsdale Board of Public Utilities (BPU) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The Hillsdale Board of Public Utilities (the BPU) provides electric, water and sewage disposal services to residents of the City of Hillsdale (the City) and nearby townships, as recorded in three separate enterprise funds. Policy is set and operations are directed by a five-member Board.

Measurement Focus and Basis of Accounting

The BPU uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The operations of the BPU are accounted for as Enterprise Funds of the City of Hillsdale, Michigan, which are designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and the resulting net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The BPU reports the following major proprietary funds:

Electric – This fund accounts for the activities of the BPU's electric generation and distribution systems.

Water – This fund accounts for the activities of the BPU's water production, purification and distribution systems.

Sewer – This fund accounts for the activities of the BPU's sewer collection and treatment systems.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance of their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Alsedale Board of Public Utilities
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Proprietary funds (enterprise funds) distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the BPU enterprise funds are charges to customers for sales and services. The BPU also recognizes as operating revenue the portion of fees intended to record the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

State statutes authorize the BPU to invest surplus funds in bonds, securities, other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements; certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; bankers' acceptances of United States banks; obligations of the State of Michigan or any of its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service; mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; and external investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments are stated at fair value.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Receivables

All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Inventories and Prepaid Items

Inventories are valued at cost, which approximates market, using the average cost method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Alsdsale Board of Public Utilities
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets which include land and buildings, plant, vehicles and equipment, and infrastructure assets (e.g., pipes, poles, wire, transformers, and similar items) are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized when projects are completed.

Property, plant, and equipment of the BPU is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Plant and systems	10-65

Net Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted resources are applied first when an expense is incurred for which both restricted and unrestricted net assets are available. Restricted net assets segregate resources accumulated for debt service payments. Designations of net assets represent tentative management plans that are subject to change.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Pension Plan Funding

The BPU policy is to fund pension costs as they accrue.

Compensated Absences

Accumulated unpaid vacation, sick, and personal days are accrued when earned.

Windsor Board of Public Utilities
Notes to Financial Statements

Note 2 – Cash and Investments

A summary of cash and investments at year-end is as follows:

Bank deposits (checking and savings accounts and short-term CDs)	\$2,683,016
Investments	5,086,415
Cash on hand	<u>600</u>
	<u>\$7,770,031</u>

Investments are further specifically identified as of year-end, as follows:

	<u>Amount</u>	<u>Rating</u>
Fidelity Investment Cash	\$ 183,160	N/A
Spartan U.S. Government Money Market	535,480	N/A
U.S. Government Agency Bonds (maturing in 1 to 5 years)	4,267,775	AAA
Certificate of deposit (maturing in 132 days)	<u>100,000</u>	N/A
	<u>\$5,086,415</u>	

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. The Board has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$2,330,372 of the Board's bank balance of \$2,599,353 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Board has not adopted and State law does not require a policy for investment custodial risk.

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above (see Note 1). The Board's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment type are identified above for investments held at year-end.

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above (see Note 1). The Board's investment policy does not have specific limits in excess of State law on investment credit risk. The ratings for each investment are identified above for applicable investments held at year-end.

.Isdale Board of Public Utilities
Notes to Financial Statements

Note 3 – Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 189,982	\$ -	\$ -	\$ 189,982
Construction in progress	<u>367,933</u>	<u>370,423</u>	<u>-</u>	<u>738,356</u>
Total capital assets not being depreciated	<u>557,915</u>	<u>370,423</u>	<u>-</u>	<u>928,338</u>
Capital assets being depreciated:				
Plant and systems	51,853,229	460,632	(198,650)	52,115,211
Accumulated depreciation:				
Plant and systems	<u>30,012,417</u>	<u>997,530</u>	<u>(89,517)</u>	<u>30,920,430</u>
Total capital assets being depreciated, net	<u>21,840,812</u>	<u>(536,898)</u>	<u>(109,133)</u>	<u>21,194,781</u>
Business-type activities capital assets – net	<u>\$ 22,398,727</u>	<u>\$ (166,475)</u>	<u>\$ (109,133)</u>	<u>\$22,123,119</u>

Depreciation expense was charged to operating expenses as follows:

Electric Fund	\$ 626,703
Water Fund	212,325
Sewer Fund	<u>158,502</u>
	<u>\$ 997,530</u>

Note 4 – Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent Of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 4 - Investment in Michigan South Central Power Agency (Continued)

The Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with Governmental Accounting Standards Board Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2007, audited by other auditors, who expressed an unqualified opinion on those statements.

The BPU has entered into a Power Sales Contract with M.S.C.P.A. which requires the BPU to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of M.S.C.P.A.'s operating and debt service costs. The BPU has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the BPU to sell to M.S.C.P.A. power generated by its facilities.

The summary information of the BPU investment in the M.S.C.P.A. for the year ended June 30, 2007 is as follows:

	Total M.S.C.P.A.	Hillsdale BPU Portion 25.5%
Total assets	\$ 74,707,008	\$ 19,050,287
Total liabilities	<u>51,190,783</u>	<u>13,053,650</u>
Net Assets	\$ <u>23,516,225</u>	\$ <u>5,996,637</u>
Operating revenues	\$ 42,858,324	\$ 10,928,873
Operating expenses	<u>35,532,861</u>	<u>9,060,880</u>
Operating Income	7,325,463	1,867,993
Other income and expenses	<u>(1,314,005)</u>	<u>(335,071)</u>
Changes in Net Assets	6,011,458	1,532,922
Net Assets, Beginning of Year	<u>17,504,767</u>	<u>4,463,715</u>
Net Assets, End of Year	\$ <u>23,516,225</u>	\$ <u>5,996,637</u>

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 5 - Long-Term Debt

Long-term liabilities for the BPU's three enterprise funds for the year ended June 30, 2007, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue bonds:					
1999 Water	\$ 1,855,000	\$ -	\$ 110,000	\$ 1,745,000	\$ 110,000
2002 Water					
Refunding	1,480,000	-	140,000	1,340,000	150,000
1992 Sewer	<u>1,080,000</u>	<u>-</u>	<u>145,000</u>	<u>935,000</u>	<u>150,000</u>
	4,415,000	-	395,000	4,020,000	410,000
Compensated absences	<u>154,774</u>	<u>7,999</u>	<u>-</u>	<u>162,773</u>	<u>-</u>
Total	<u>\$ 4,569,774</u>	<u>\$ 7,999</u>	<u>\$ 395,000</u>	<u>\$ 4,182,773</u>	<u>\$ 410,000</u>

Revenue bonds consist of the following:

Water Fund

1999 Revenue Bonds – maturing \$110,000 to \$185,000 annually, plus interest from 4.75% to 5.10% through October 1, 2018	\$ 1,745,000
2002 Water Revenue Refunding Bonds – maturing \$140,000 to \$190,000 annually, plus interest from 3.00% to 4.00% through October 1, 2014	<u>1,340,000</u> 3,085,000

Sewer Fund

1992 Revenue Bonds – Michigan Municipal Bond Authority Revolving Loan Fund payable, maturing \$145,000 to \$165,000 annually, plus interest at 2.00%, through April, 2013	<u>935,000</u> \$ 4,020,000
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Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	Water			Sewer		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 260,000	\$ 127,614	\$ 387,614	\$ 150,000	\$ 18,700	\$168,700
2009	270,000	117,696	387,696	150,000	15,700	165,700
2010	275,000	107,310	382,310	155,000	12,700	167,700
2011	290,000	96,132	386,132	155,000	9,600	164,600
2012	305,000	84,061	389,061	160,000	6,500	166,500
2013 - 2017	1,320,000	225,481	1,545,481	165,000	3,300	168,300
2018 - 2019	<u>365,000</u>	<u>18,698</u>	<u>383,698</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,085,000</u>	<u>\$ 776,992</u>	<u>\$3,861,992</u>	<u>\$ 935,000</u>	<u>\$ 66,500</u>	<u>\$1,001,500</u>

Hillsdale Board of Public Utilities
Notes to Financial Statements

Note 6 - Employee Retirement System

Plan Description

The BPU, in conjunction with the City of Hillsdale, participates in an agent multiple-employer defined benefit public employee retirement system governed by the State of Michigan, titled Municipal Employees Retirement System (MERS). Information regarding this plan can be found in the City of Hillsdale annual financial statements.

Note 7 - Risk Management

The BPU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The BPU carries commercial insurance to cover risks of losses. The BPU settled claims resulting from these risks did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Interfund Receivables and Payables

The composition of interfund balances at year-end is as follows:

Due To/From Other Funds of BPU:	<u>Receivables</u>	<u>Payables</u>
Water	\$ -	\$ 679,727
Sewer	<u>679,727</u>	<u>-</u>
	<u>\$ 679,727</u>	<u>\$ 679,727</u>
Due To/From Other Funds of City:	<u>Receivables</u>	<u>Payables</u>
Electric	\$ 3,428	\$ 40,748
Water	-	3,557
Sewer	<u>-</u>	<u>1,898</u>
	<u>\$ 3,428</u>	<u>\$ 46,203</u>

The BPU reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the business-type activities. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 9 – Reclassifications

Certain balances in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications have not had any impact on net income.

Supplemental Information

Hillsdale Board of Public Utilities
Electric Fund
Statements of Net Assets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,213,940	\$ 1,372,143
Receivables (net of allowance for uncollectibles):		
Customer accounts	988,678	1,041,101
Interest	24,115	12,619
Due from City	3,428	17,506
Inventories	330,418	331,032
Prepaid expenses	<u>84,458</u>	<u>81,656</u>
Total current assets	<u>3,645,037</u>	<u>2,856,057</u>
Restricted and designated assets:		
Designated investments	<u>3,256,997</u>	<u>2,118,218</u>
Total restricted and designated assets	<u>3,256,997</u>	<u>2,118,218</u>
Capital assets:		
Property, plant and equipment, at cost	29,762,872	29,183,273
Less: accumulated depreciation	<u>17,492,604</u>	<u>16,955,419</u>
Total capital assets	<u>12,270,268</u>	<u>12,227,854</u>
Other assets:		
Long-term inventories	330,664	306,730
Investment in M.S.C.P.A.	<u>5,996,638</u>	<u>4,463,715</u>
Total other assets	<u>6,327,302</u>	<u>4,770,445</u>
Total assets	<u>25,499,604</u>	<u>21,972,574</u>

	<u>2007</u>	<u>2006</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 37,274	\$ 63,964
Accrued purchased power	865,050	809,582
Due to City	40,748	45,815
Customer deposits	6,276	7,069
Payroll taxes	3,518	5,244
Other	<u>32,726</u>	<u>35,146</u>
 Total current liabilities	 985,592	 966,820
 Compensated absences	 <u>92,275</u>	 <u>82,690</u>
 Total liabilities	 <u>1,077,867</u>	 <u>1,049,510</u>
 Net Assets:		
Invested in capital assets, net of related debt	12,270,268	12,227,854
Unrestricted	<u>12,151,469</u>	<u>8,695,210</u>
 Total net assets	 <u>\$ 24,421,737</u>	 <u>\$ 20,923,064</u>

Hillsdale Board of Public Utilities
Electric Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 3,983,175	\$ 3,245,416
Business	1,165,090	944,680
Commercial	3,409,403	2,556,697
Industrial	3,708,061	3,074,207
Street light sales	47,023	35,198
Other operating income	<u>47,683</u>	<u>40,211</u>
 Total operating revenue	 <u>12,360,435</u>	 <u>9,896,409</u>
 Operating Expenses:		
Purchased power	6,304,511	6,604,746
Production expense	863,998	889,504
Transmission and distribution	1,164,930	995,361
Administrative and general	<u>838,673</u>	<u>752,007</u>
 Total operating expenses	 <u>9,172,112</u>	 <u>9,241,618</u>
 Operating Income (Loss)	 <u>3,188,323</u>	 <u>654,791</u>
 Non-operating Revenue (Expense)		
Interest income	258,362	71,761
Other non-operating income (expense)	<u>51,994</u>	<u>2,799</u>
 Total non-operating revenue (expense)	 <u>310,356</u>	 <u>74,560</u>
 Changes in Net Assets	 3,498,679	 729,351
 Net Assets, Beginning of Year	 <u>20,923,058</u>	 <u>20,193,713</u>
 Net Assets, End of Year	 <u>\$ 24,421,737</u>	 <u>\$ 20,923,064</u>

Hillsdale Board of Public Utilities
Electric Fund
Schedules of Operating Expenses
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Purchased Power:		
Purchased power	\$ 9,584,207	\$ 9,973,942
Power cost adjustment	(1,746,774)	(2,787,494)
Gain on investment in M.S.C.P.A.	<u>(1,532,922)</u>	<u>(581,702)</u>
Total purchased power	<u>\$ 6,304,511</u>	<u>\$ 6,604,746</u>
Production Expense:		
Depreciation	\$ 252,165	\$ 238,376
Engine fuels	79,958	77,823
Production operation	456,206	505,986
Production maintenance	<u>75,669</u>	<u>67,319</u>
Total production expense	<u>\$ 863,998</u>	<u>\$ 889,504</u>
Transmission and Distribution Expense:		
Depreciation	\$ 315,050	\$ 324,331
Distribution operation	380,799	298,035
Distribution maintenance	<u>469,081</u>	<u>372,995</u>
Total transmission and distribution expense	<u>\$ 1,164,930</u>	<u>\$ 995,361</u>
Administrative and General Expense:		
Payment in lieu of tax	\$ 477,351	\$ 300,030
Depreciation	59,488	78,227
Customer accounts expense	72,052	71,938
Customer service and information expense	26,544	25,922
Administrative operation	196,914	267,784
Administrative maintenance	<u>6,324</u>	<u>8,106</u>
Total administrative and general expense	<u>\$ 838,673</u>	<u>\$ 752,007</u>

Hillsdale Board of Public Utilities

Water Fund

Statements of Net Assets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Current assets:		
Accounts receivable	\$ 97,542	\$ 69,506
Interest receivable	3,298	2,804
Inventory	77,320	80,122
Prepaid expenses	<u>21,344</u>	<u>20,177</u>
Total current assets	<u>199,504</u>	<u>172,609</u>
 Restricted and designated assets:		
Designated investments	281,255	234,959
Restricted investments	<u>629,210</u>	<u>633,871</u>
Total restricted and designated assets	<u>910,465</u>	<u>868,830</u>
 Capital assets:		
Property, plant and equipment, at cost	10,011,279	9,962,770
Less: accumulated depreciation	<u>4,369,954</u>	<u>4,157,629</u>
Total capital assets	<u>5,641,325</u>	<u>5,805,141</u>
 Total assets	<u>6,751,294</u>	<u>6,846,580</u>

	<u>2007</u>	<u>2006</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 30,188	\$ 9,825
Due to other funds of BPU	679,727	1,001,735
Due to City	3,557	2,530
Accrued liabilities	4,830	7,245
Customer deposits	<u>85</u>	<u>500</u>
Total current liabilities payable from current assets	<u>718,387</u>	<u>1,021,835</u>
Current liabilities payable from restricted assets:		
Bonds payable	260,000	250,000
Accrued interest	<u>33,119</u>	<u>35,476</u>
Total current liabilities payable from restricted assets	293,119	285,476
Compensated absences payable	36,104	35,148
Long-term debt, net of current maturities:		
Bonds payable	<u>2,825,000</u>	<u>3,085,000</u>
Total liabilities	<u>3,872,610</u>	<u>4,427,459</u>
Net Assets:		
Invested in capital assets, net of related debt	2,556,325	2,470,141
Restricted for debt service	629,210	633,871
Unrestricted (deficit)	<u>(306,851)</u>	<u>(684,891)</u>
Total net assets	<u>\$ 2,878,684</u>	<u>\$ 2,419,121</u>

Hillsdale Board of Public Utilities
Water Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 613,774	\$ 451,790
Business	154,257	113,458
Commercial	260,396	215,425
Industrial	129,505	108,495
Apartments	307,174	220,589
Other operating income	<u>9,593</u>	<u>4,761</u>
 Total operating revenue	 <u>1,474,699</u>	 <u>1,114,518</u>
 Operating Expenses:		
Production expense	55,739	50,336
Purification expense	232,293	205,935
Distribution expense	415,347	399,876
Administrative and general	<u>227,184</u>	<u>223,519</u>
 Total operating expenses	 <u>930,563</u>	 <u>879,666</u>
 Operating Income (Loss)	 <u>544,136</u>	 <u>234,852</u>
 Non-operating Revenue (Expense):		
Interest income	54,487	16,567
Interest expense	(134,834)	(144,380)
Other non-operating income (expense)	<u>(4,224)</u>	<u>(7,756)</u>
 Total non-operating revenue (expense)	 <u>(84,571)</u>	 <u>(135,569)</u>
 Changes in Net Assets	 459,565	 99,283
 Net Assets, Beginning of Year	 <u>2,419,119</u>	 <u>2,319,838</u>
 Net Assets, End of Year	 <u>\$ 2,878,684</u>	 <u>\$ 2,419,121</u>

Hillsdale Board of Public Utilities
Water Fund
Schedules of Operating Expenses
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Production Expense:		
Depreciation	\$ 12,830	\$ 11,699
Production operation	34,093	31,177
Production maintenance	<u>8,816</u>	<u>7,460</u>
Total production expense	<u>\$ 55,739</u>	<u>\$ 50,336</u>
Purification Expense:		
Depreciation	\$ 58,789	\$ 58,789
Chemical expense	43,664	44,239
Purification operation	95,126	86,813
Purification maintenance	<u>34,714</u>	<u>16,094</u>
Total purification expense	<u>\$ 232,293</u>	<u>\$ 205,935</u>
Distribution Expense:		
Depreciation	\$ 130,534	\$ 130,105
Distribution operation	78,831	85,469
Distribution maintenance	<u>205,982</u>	<u>184,302</u>
Total distribution expense	<u>\$ 415,347</u>	<u>\$ 399,876</u>
Administrative and General Expense:		
Payment in lieu of tax	\$ 41,119	\$ 30,190
Depreciation	10,172	9,255
Customer accounts expense	56,133	45,186
Customer service and information expense	13,718	13,347
Administrative operation	103,245	121,837
Administrative maintenance	<u>2,797</u>	<u>3,704</u>
Total administrative and general expense	<u>\$ 227,184</u>	<u>\$ 223,519</u>

Hillsdale Board of Public Utilities
Water Fund
Schedule of Bonded Debt
June 30, 2007

Revenue Bonds - Series 1999

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2007	4.750%	\$ 110,000	\$ 42,734	\$ 152,734
April 1, 2008			40,122	40,122
October 1, 2008	4.750%	115,000	40,122	155,122
April 1, 2009			37,391	37,391
October 1, 2009	4.750%	120,000	37,391	157,391
April 1, 2010			34,541	34,541
October 1, 2010	4.750%	130,000	34,541	164,541
April 1, 2011			31,453	31,453
October 1, 2011	4.750%	135,000	31,453	166,453
April 1, 2012			28,247	28,247
October 1, 2012	4.800%	140,000	28,247	168,247
April 1, 2013			24,887	24,887
October 1, 2013	4.875%	145,000	24,887	169,887
April 1, 2014			21,353	21,353
October 1, 2014	4.900%	155,000	21,353	176,353
April 1, 2015			17,555	17,555
October 1, 2015	5.000%	160,000	17,555	177,555
April 1, 2016			13,555	13,555
October 1, 2016	5.050%	170,000	13,555	183,555
April 1, 2017			9,262	9,262
October 1, 2017	5.050%	180,000	9,262	189,262
April 1, 2018			4,718	4,718
October 1, 2018	5.100%	185,000	4,718	189,718
Totals		<u>\$ 1,745,000</u>	<u>\$ 568,902</u>	<u>\$ 2,313,902</u>

Hillsdale Board of Public Utilities
Water Fund
Schedule of Bonded Debt
June 30, 2007

Revenue Refunding Bonds - Series 2002

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2007	3.000%	\$ 150,000	\$ 23,504	\$ 173,504
April 1, 2008			21,254	21,254
October 1, 2008	3.000%	155,000	21,254	176,254
April 1, 2009			18,929	18,929
October 1, 2009	3.200%	155,000	18,929	173,929
April 1, 2010			16,449	16,449
October 1, 2010	3.450%	160,000	16,449	176,449
April 1, 2011			13,689	13,689
October 1, 2011	3.550%	170,000	13,689	183,689
April 1, 2012			10,672	10,672
October 1, 2012	3.625%	175,000	10,672	185,672
April 1, 2013			7,500	7,500
October 1, 2013	4.000%	185,000	7,500	192,500
April 1, 2014			3,800	3,800
October 1, 2014	4.000%	190,000	3,800	193,800
Totals		<u>\$ 1,340,000</u>	<u>\$ 208,090</u>	<u>\$ 1,548,090</u>

Hillsdale Board of Public Utilities
Sewer Fund
Statements of Net Assets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 469,676	\$ 370,181
Accounts receivable	47,045	72,313
Interest receivable	4,905	4,346
Due from other funds of BPU	679,727	1,001,735
inventory	9,481	6,577
Prepaid expenses	<u>35,515</u>	<u>32,892</u>
Total current assets	<u>1,246,349</u>	<u>1,488,044</u>
Restricted and designated assets:		
Designated investments	305,147	278,357
Restricted investments	<u>613,806</u>	<u>591,990</u>
Total restricted and designated assets	<u>918,953</u>	<u>870,347</u>
Capital assets:		
Property, plant and equipment, at cost	13,269,398	13,265,101
Less: accumulated depreciation	<u>9,057,872</u>	<u>8,899,369</u>
Total capital assets	<u>4,211,526</u>	<u>4,365,732</u>
Total assets	<u>6,376,828</u>	<u>6,724,123</u>

	<u>2007</u>	<u>2006</u>
Liabilities:		
Current liabilities payable from current assets:		
Accounts payable	\$ 11,002	\$ 18,519
Due to City	1,898	2,946
Accrued liabilities	<u>5,347</u>	<u>7,343</u>
Total current liabilities payable from current assets	<u>18,247</u>	<u>28,808</u>
Current liabilities payable from restricted assets:		
Bonds payable	150,000	145,000
Accrued interest	<u>4,675</u>	<u>6,100</u>
Total current liabilities payable from restricted assets	154,675	151,100
Compensated absences payable	34,364	36,936
Long-term debt, net of current maturities:		
Bonds payable	<u>785,000</u>	<u>935,000</u>
Total liabilities	<u>992,286</u>	<u>1,151,844</u>
Net Assets:		
Invested in capital assets, net of related debt	3,276,526	-
Restricted for debt service	613,806	-
Unrestricted	<u>1,494,210</u>	<u>5,572,279</u>
Total net assets	<u>\$ 5,384,542</u>	<u>\$ 5,572,279</u>

Hillsdale Board of Public Utilities
Sewer Fund
Statements of Revenues, Expenses
and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Sales to customers:		
Residential	\$ 286,455	\$ 442,896
Business	66,349	109,287
Commercial	132,125	228,140
Industrial	82,494	135,059
Apartments	143,223	221,876
Other operating income	<u>9,039</u>	<u>14,577</u>
Total operating revenue	<u>719,685</u>	<u>1,151,835</u>
Operating Expenses:		
Sewer collection system expense	177,478	202,332
Treatment expense	559,492	508,912
Administrative and general	<u>213,130</u>	<u>241,364</u>
Total operating expenses	<u>950,100</u>	<u>952,608</u>
Operating Income	<u>(230,415)</u>	<u>199,227</u>
Non-operating Revenue (Expense):		
Interest income	65,098	49,234
Interest expense	(20,175)	(23,700)
Other non-operating income (expense)	<u>(2,243)</u>	<u>(4,171)</u>
Total non-operating revenue (expense)	<u>42,680</u>	<u>21,363</u>
Changes in Net Assets	(187,735)	220,590
Net Assets, Beginning of Year	<u>5,572,277</u>	<u>5,351,689</u>
Net Assets, End of Year	<u>\$ 5,384,542</u>	<u>\$ 5,572,279</u>

Hillsdale Board of Public Utilities
Sewer Fund
Schedules of Operating Expenses
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Sewer Collection System Expense:		
Depreciation	\$ 62,867	\$ 62,424
Collection operation	47,720	51,119
Collection maintenance	<u>66,891</u>	<u>88,789</u>
 Total sewer collection system expense	 <u>\$ 177,478</u>	 <u>\$ 202,332</u>
 Treatment Expense:		
Depreciation	\$ 86,346	\$ 85,992
Chemical expense	20,889	12,957
Treatment operation	320,876	278,378
Treatment maintenance	<u>131,381</u>	<u>131,585</u>
 Total treatment expense	 <u>\$ 559,492</u>	 <u>\$ 508,912</u>
 Administrative and General Expense:		
Payment in lieu of tax	\$ 22,091	\$ 34,951
Depreciation	9,289	8,373
Customer accounts expense	57,553	51,624
Customer service and information expense	12,769	12,474
Administrative operation	108,439	130,239
Administrative maintenance	<u>2,989</u>	<u>3,703</u>
 Total administrative and general expense	 <u>\$ 213,130</u>	 <u>\$ 241,364</u>

Hillsdale Board of Public Utilities
Sewer Fund
Schedule of Bonded Debt
June 30, 2007

Michigan Municipal Bond Authority - March 26, 1992

<u>Date</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
October 1, 2007			\$ 9,350	\$ 9,350
April 1, 2008	2.00%	\$ 150,000	9,350	159,350
October 1, 2008			7,850	7,850
April 1, 2009	2.00%	150,000	7,850	157,850
October 1, 2009			6,350	6,350
April 1, 2010	2.00%	155,000	6,350	161,350
October 1, 2010			4,800	4,800
April 1, 2011	2.00%	155,000	4,800	159,800
October 1, 2011			3,250	3,250
April 1, 2012	2.00%	160,000	3,250	163,250
October 1, 2012			1,650	1,650
April 1, 2013	2.00%	165,000	1,650	166,650
Totals		<u>\$ 935,000</u>	<u>\$ 66,500</u>	<u>\$ 1,001,500</u>

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

We have audited the financial statements of the Hillsdale Board of Public Utilities as of and for the year ended June 30, 2007, and have issued our report thereon dated October 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hillsdale Board of Public Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the BPU's financial statements that is more than inconsequential will not be prevented or detected by the BPU's internal control over financial reporting. We consider the deficiencies described as 2007-1 and 2007-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 and 2007-2, are not material weaknesses.


Board Members
Hillsdale Board of Public Utilities

Compliance

As part of obtaining reasonable assurance about whether the Hillsdale Board of Public Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Hillsdale Board of Public Utilities' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the responses and, accordingly, we express no opinion on it.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Willis & Jurasek, P.C.

October 1, 2007

Board Members
Hillsdale Board of Public Utilities
Hillsdale, Michigan

Schedule of Findings and Responses

Finding 2007-1

Currently, the BPU's staff prepares the interim internal and annual financial statements. The annual financial statements for the year ended June 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled Communicating Internal Control Related Matters Identified in an Audit (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the BPU does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2007-2

Currently, management has decided not to present a Management's Discussion & Analysis as required. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standard #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to present this information. A MD&A is provided in the city-wide financial statements.